

# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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**LARRY WALKER**

Auditor/Controller-Recorder  
County Clerk

**ELIZABETH A. STARBUCK**

Assistant Auditor/Controller-Recorder  
Assistant County Clerk

**March 12, 2009**

**Jeffrey O. Rigney, Director**  
Special Districts Department  
157 W. Fifth Street, 2<sup>nd</sup> Floor  
San Bernardino, CA 92415-0450

**Subject: MANAGEMENT LETTER – COUNTY SERVICE AREA NO. 70 IMPROVEMENT  
ZONE R-44 FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

We have completed an audit of the County Service Area No. 70 – Improvement Zone R-44 (District) for the fiscal year ended June 30, 2008 and have issued our report thereon dated March 12, 2009. In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

**Material Weakness # 1 – Improvement to land expenditures were not coded as capital expenditures.**

Governmental Accounting Standards Board (GASB) Statement No. 34 requires the reporting of capital assets that are used in operations. A \$62,000 capital improvement project was recorded as an expense, instead of a capital asset. This occurred because the described

scope of the project included some words that are usually associated with maintenance-type items that are expensed, and the project was therefore budgeted for under the wrong appropriation code. Using an incorrect appropriation code can potentially have a material effect on the financial statements. An audit adjustment was needed to appropriately show this as a capital asset.

**Recommendation:**

We recommend that the District ensure that all capital improvement projects are coded to the proper accounting codes.

**Management's Response (verbatim as received from Special Districts' Department):**

It is agreed that the reason this particular acquisition was miscoded is because the scope of project was not fully understood by Budget/Fiscal staff at time of budgeting, which allowed the project to be appropriated in the wrong expenditure code. Also, a portion of the project was the type of work that historically has been expensed through a 200 series expenditure code. Note that the description that appeared on the requisition and the purchase order (General removal and disposal of fallen/dead trees, install/build headwalls, compact and grade existing roadway) appears at first glance to be normal maintenance.

To lessen the chance of this type of miscoding happening in the future, the Budget/Fiscal Division Manager will ensure the following is accomplished immediately:

A quick reference explaining what is to be expensed versus capitalized, including an explanation of the difference between ordinary and extraordinary repairs, will be provided to Managers immediately. The quick reference will be included as an attachment to future Special Districts Department budget instructions (budget call letter).

Budget/Fiscal Division will be informed of this finding and instructed to refer to the quick reference during review of purchase requisitions. If a purchase or acquisition is found in process as an expense when it should be capitalized, it will be stopped pending budget adjustments, and subsequently the document will be re-coded and processed as appropriate.

Respectfully submitted,

**Larry Walker**

Auditor/Controller-Recorder 

By:

Howard M. Ochi  
Chief Deputy Auditor

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